

Message Text

PAGE 01 STATE 057362

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AMEMBASSY ROME

AMEMBASSY VIENNA

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C O N F I D E N T I A L STATE 057362

FOL REPEAT VIENTIANE 1513 SENT ACTION SECSTATE BANGKOK LONDON

MOSCOW NEW DELHI PARIS PHNOM PENH RANGOON SAIGON TOKYO HONG KONG

UDORN PEKING CINCPAC USSAG NKP MAR 04

QUOTE

C O N F I D E N T I A L VIENTIANE 1513

E.O. 11652: GDS

TAGS: MOPS, PGOV, PINT, ECON, LA

SUBJECT: THE LAO SETTLEMENT TWO YEARS LATER

REF: VIENTIANE 1294, FEBRUARY 16, 1974

CONFIDENTIAL

PAGE 02 STATE 057362

BEGIN SUMMARY: TWO YEARS AFTER ITS SIGNING, THE VIENTIANE
AGREEMENT ON RESTORATION OF PEACE AND RECONCILIATION IN
LAOS IS STILL WORKING IN MOST RESPECTS. ITS CEASEFIRE
PROVISIONS ARE GENERALLY RESPECTED. SOMEWHAT PARADOXICALLY,

THE BOUNDARY DEMARCATION PROCESS CALLED FOR IN THE AGREEMENT HAS STIMULATED SEVERAL OF THE SKIRMISHES IN RECENT MONTHS. ALTHOUGH NORTH VIETNAMESE TROOPS STAY OUT OF COMBAT AND OUT OF SIGHT, THEY REMAIN IN LAOS IN SUBSTANTIAL NUMBERS--AND IN VIOLATION OF THE AGREEMENT. IN OTHER RESPECTS, HOWEVER, THE INTERNATIONAL FRAMEWORK THAT SURROUNDS THE VIENTIANE AGREEMENT IS HOLDING. NO MAJOR POWER WISHES TO SEE THE COALITION COME APART OR THE WAR RESUME IN LAOS.

THERE HAS BEEN PROGRESS IN IMPLEMENTING SOME SPECIFIC ASPECTS OF THE AGREEMENT: PRISONER EXCHANGES WERE CARRIED OUT IN SEPTEMBER-OCTOBER 1974, AND EACH SIDE CLAIMS TO HAVE TURNED OVER ALL IT HELD. WITHIN PAST TWO MONTHS, AGREEMENT HAS BEEN REACHED ON RETURN OF REFUGEES TO NATIVE VILLAGES IN PATHET LAO ZONE.

THREE POLITICAL BODIES CREATED BY AGREEMENT ARE ALL IN BEING AND OPERATING. THE VIENTIANE SIDE'S NATIONAL ASSEMBLY HAS NOT YET BEEN LAID TO REST, AND THIS REPRESENTS A MAJOR ISSUE OF CONTROVERSY. PRIME MINISTER SOUVANNA PHOUMA HAS JUST RETURNED TO VIENTIANE AFTER MANY MONTHS, BUT HE IS A DIMINISHED MAN. THE VIENTIANE SIDE REMAINS DISTURBED BY HIS TENDENCY TO SIDE WITH THE COMMUNISTS.

LAO PATRIOTIC FRONT HAS MAINTAINED INITIATIVES, PROMOTED STRIKES AND CIVIL DISTURBANCES, AND NOW CLAIMS A RIGHT TO "HELP SETTLE" PROBLEMS IN VIENTIANE SIDE'S ZONE--WHILE DENYING ACCESS TO ITS OWN.

SENIOR VIENTIANE SIDE MILITARY OFFICERS ARE AMONG THE MOST VOCAL IN CRITICIZING SOUVANNA AND BEMOANING LPF ACTIVITIES, BUT THEY HAVE DONE LITTLE TO RATIONALIZE AND PROFESSIONALIZE THE FAR OR TO CLEAN IT UP.

THE LAO ECONOMY CONTINUES TO FUNCTION DESPITE SEVERE PROBLEMS AND UNWISE PGNU DECISIONS--MOST NOTABLY
CONFIDENTIAL

PAGE 03 STATE 057362

EXCHANGE CONTROLS INSTEAD OF DEVALUATION--DICTATED BY POLITICAL CONSIDERATIONS. AID-SEEKING MISSIONS TO NUMEROUS COUNTRIES HAVE BROUGHT LAOS SOME RESULTS BUT HAVE PERHAPS ALSO HELPED FOSTER THE ILLUSION THAT THE WORLD OWES LAOS A LIVING. END SUMMARY

1. THE CEASEFIRE PROVISIONS OF THE VIENTIANE AGREEMENT SIGNED TWO YEARS AGO (FEBRUARY 21, 1973) HAVE HELD UP WELL. ALTHOUGH VIENTIANE SIDE AND PATHET LAO REGULARLY ACCUSE EACH OTHER OF ATTACKS AND PROVOCATIONS, SERIOUS INCIDENTS HAVE BEEN RARE. IN THE SECOND YEAR OF THE CEASEFIRE, MANEUVERING FOR POSITION IN AREAS WHERE PROVISIONAL DEMARCATION STAKES ARE TO BE PLANTED

PRODUCED A NUMBER OF THE SMALL-SCALE SKIRMISHES THAT ATTRACTED SOME ATTENTION. THE STAKE-PLANTING OPERATION IS STILL ONLY A LITTLE MORE THAN HALF COMPLETED, SO PROSPECT REMAINS FOR FURTHER INCIDENTS OF THIS TYPE. ON THE OTHER HAND, BOUNDARY STAKES, ONCE PLANTED, SEEM IN SEVERAL CASES TO HAVE HAD INTENDED EFFECT OF KEEPING TWO SIDES APART AND DEFUSING LOCAL SITUATIONS.

2. OTHERWISE, MILITARY ACTIVITY HAS REMAINED AT EXTREMELY LOW LEVELS. MISSION NO LONGER HAS MANPOWER TO KEEP CLOSE TRACK OF RLGAF CASUALTIES, ORDNANCE EXPENDITURES, AIR-CRAFT SORTIES AND OTHER INDICATORS, BUT WE HAVE NO DOUBT THAT THESE REMAIN DOWN WHERE THEY HAVE BEEN SINCE SHORTLY AFTER AGREEMENT CAME INTO EFFECT.

3. IN THE PAST YEAR, NORTH VIETNAMESE TROOP PRESENCE IN LAOS HAS DECLINED SHARPLY, FROM APPROXIMATELY 58,000 IN FEBRUARY 1974 TO AN ESTIMATED 27,000 TODAY. THIS REDUCTION APPEARS, HOWEVER, TO HAVE BEEN DICTATED BY HANOI'S COMBAT PRIORITIES AND NOT BY ANY INTENT TO COMPLY WITH VIENTIANE AGREEMENT. MORE THAN HALF OF THE NVA TROOPS WHICH REMAIN IN LAOS ARE ENGAGED IN OPERATING THE LOGISTICS SYSTEM TO SOUTH VIET-NAM AND CAMBODIA. THE REMAINDER, IN UNITS WHICH HAVE HISTORICALLY OPERATED AGAINST LAOTIAN OBJECTIVES, ARE QUIET FOR NOW.

4. ALL OF THE GREAT POWERS AND ALL OF LAOS' IMMEDIATE NEIGHBORS APPEAR TO WANT THE AGREEMENT TO SUCCEED (OR AT CONFIDENTIAL

PAGE 04 STATE 057362

LEAST WANT IT NOT TO FAIL FOR TIME BEING). HANOI HAS SIGNALLED ITS ACCEPTANCE BY ENTERING FOR FIRST TIME INTO AN AID AGREEMENT WITH THE PGNU INSTEAD OF CONFINING SUPPORT TO THE PATHET LAO ALONE. SOVIET UNION AND PRC HAVE ALSO RESPONDED TO PGNU AID REQUESTS AND OTHERWISE MANIFESTED SUPPORT FOR AGREEMENT. OTHER COMMUNIST COUNTRIES HAVE GRANTED AID, AND SOME HAVE SET UP RESIDENT MISSIONS SINCE PGNU WAS INSTALLED; LATTER GROUP INCLUDES NORTH KOREA, EAST GERMANY, HUNGARY AND POLAND (EMBASSY IN ADDITION TO ICC DELEGATION). THAILAND UNDER SANYA GOVERNMENT SENT FOREIGN MINISTER TO VIENTIANE AND PROMISED AID AS WELL. IN SHORT, LAOS AT LEAST FOR MOMENT APPEARS TO HAVE UNANIMOUS OUTSIDE ENDORSEMENT OF CEASEFIRE AND COALITION.

5. WHILE NORTH VIETNAMESE TROOPS REMAIN, THERE HAS BEEN GREATER COMPLIANCE WITH SOME OTHER PROVISIONS OF VIENTIANE AGREEMENT AND ITS SEPTEMBER 1973 PROTOCOL. THE TWO SIDES IN SEPTEMBER AND OCTOBER 1974 SWAPPED PRISONERS, WITH 173 PATHET LAO (AND 7 NVA) HANDED OVER TO LPF AND SEVERAL HUNDRED LAO AND THAI RETURNED TO VIENTIANE SIDE. AT SAME TIME, U.S.-CITIZEN CIVILIAN PILOT EMMET KAY WAS RELEASED AFTER 16 MONTHS' CAPTIVITY.

6. KAY WAS LAST KNOWN U.S. PRISONER IN LAOS AND THERE IS NO HARD CURRENT EVIDENCE EVEN TO SUGGEST THAT OTHERS REMAIN IN CAPTIVITY. THERE IS SOME EVIDENCE, HOWEVER, THAT PATHET LAO CONTINUE TO HOLD LESS TRACTABLE VIENTIANE SIDE PERSONNEL, AND LPF ACCUSE THE VIENTIANE SIDE - FALSELY, SO FAR AS WE CAN DETERMINE - OF HOLDING OUT AS WELL. U.S. PRODDING HAS HELPED TO GET NEGOTIATORS OF THE TWO SIDES THINKING ABOUT QUESTION OF CRASH-SITE INVESTIGATIONS AND SEARCHES FOR PERSONNEL WHOSE BODIES HAVE NEVER BEEN RECOVERED. CONCRETE ACTION IS STILL SOME DISTANCE OFF AND MAY BE LARGELY FRUSTRATED IF PATHET LAO PERSIST IN DENYING ACCESS TO THEIR ZONE. (IN A TROUBLING INCIDENT NOT DIRECTLY RELATED TO CEASEFIRE, PATHET LAO IN SEPTEMBER DETAINED AND WE BELIEVE STILL HOLD A YOUNG AMERICAN TOURIST AND HIS AUSTRALIAN COMPANION. DESPITE HEAVY U.S. AND SOME AUSTRALIAN PRESSURE, AND DESPITE LPF PROMISES TO INVESTIGATE, LPF HAVE DENIED KNOWLEDGE OF THE TWO YOUTHS.)

CONFIDENTIAL

PAGE 05 STATE 057362

7. THE LPF STONEWALLED FOR MONTHS ON THE ISSUE OF FREEDOM OF MOVEMENT IN CONNECTION WITH REFUGEE RESETTLEMENT. VIENTIANE SIDE, ANXIOUS TO ACHIEVE SOME PROGRESS ON REFUGEE PROBLEM, LARGELY AGREED TO LPF POSITION IN DECEMBER 1974, AND ACTUAL MOVEMENT BEGAN IN LATE JANUARY. UN HIGH COMMISSION FOR REFUGEES (UNHCR) IS PAYING FOR TRANSPORTATION OF THOSE WHO RETURN TO LPF ZONE. NUMBER OF REFUGEES WISHING TO RETURN HOME UNDER PRESENT CONDITIONS IS NOT KNOWN - IT WOULD CLEARLY BE HIGHER UNDER OTHER CONDITIONS - BUT UNHCR CURRENTLY BELIEVES THAT 30,000 TO 40,000 PERSONS CAN BE MOVED BEFORE START OF NEXT PLANTING SEASON IN APRIL. IT IS TOO EARLY TO SAY WHETHER REFUGEE RESETTLEMENT WILL REALLY CONSTITUTE A STEP TOWARD NATIONAL RECONCILIATION AND CO-MINGLING OF THE TWO ZONES, BUT ALL EVIDENCE TO DATE MAKES SUCH AN OUTCOME SEEM UNLIKELY.

POLITICAL MANEUVERING

8. PROTRACTED DISCUSSION OF REFUGEE RETURN IN JOINT CENTRAL COMMISSION TO IMPLEMENT THE AGREEMENT (JCCIA) AND BITTER ACCUSATIONS ABOUT WITHHOLDING OF PRISONERS IN SAME FORUM ARE ILLUSTRATIVE OF SORTS OF DISPUTES PLAYED OUT IN INSTITUTIONS CREATED BY VIENTIANE AGREEMENT. ATMOSPHERE IS LEAST ACRIMONIOUS IN JOINT NATIONAL POLITICAL COUNCIL (JNPC), WHERE PRINCE SOUPHANOUVONG BY FORCE OF PERSONALITY AND OTHER LPF DELEGATES BY DINT OF ORGANIZATION AND DISCIPLINE APPEAR TO HAVE IT ALL OVER THE WEAKLY REPRESENTED VIENTIANE SIDE. (DECISION THAT SOUPHANOUVONG WOULD CHAIR JNPC, RATHER THAN TAKE THE LPF DEPUTY PRIME MINISTERSHIP, CAME AS SOMETHING OF A SURPRISE BUT CLEARLY SIGNALLED POTENTIAL THAT LPF SAW IN THE COUNCIL.) AFTER

TWO MEETINGS OF A FEW WEEKS EACH (MAY-JUNE AND DECEMBER 1974), THE JNPC HAS PREPARED TWO MAJOR DOCUMENTS, AN 18-POINT POLITICAL PROGRAM AND A SUBSIDIARY STATEMENT ON DEMOCRATIC RIGHTS AND FREEDOMS. THE FORMER CONTAINS ONE VITUPERATIVE ANTI-U.S. STATEMENT AND SINGLES OUT TROOPS FROM U.S. AND THAILAND WITHOUT MENTION OF NORTH VIET-NAM (THIS IS A CITATION FROM VIENTIANE AGREEMENT), AND THE LATTER - STILL IN PROCESS - COULD AS ORIGINALLY DRAFTED HAVE IMPOSED PRIOR CENSORSHIP ON THE PRESS, AN IMPORTANT COMMUNIST OBJECTIVE.

CONFIDENTIAL

PAGE 06 STATE 057362

9. IN PGNU CABINET, FORMED APRIL 5, 1974, THERE IS A SOMEWHAT MORE EVEN BALANCE OF FORCES, AND VIENTIANE SIDE IS APPARENTLY OFTEN ABLE - WHEN IT TAKES THE TROUBLE TO DO ITS HOMEWORK AND COORDINATE BEFOREHAND - TO BLOCK UNDESIRABLE COMMUNIST INITIATIVES AND WIN ITS SHARE OF DEBATING POINTS. THE PATHET LAO ARE NO LESS ADEPT AND HAVE SUCCEEDED IN BLOCKING ACTIONS DISAGREEABLE TO THEM. STANDOFF IS PROBABLY CLEAREST IN CASES OF VIET CONG'S PRG AND SIHANOUK'S GRUNK: THE PGNU HAS NOT AND FOR FORESEEABLE FUTURE WILL NOT RECOGNIZE EITHER, AS COMMUNISTS WANT, BUT BY SAME TOKEN COMMUNIST FONMIN HAS FOR SIX MONTHS NOW PREVENTED DEPARTURE OF NEW LAO AMBASSADORS TO SAIGON AND PHNOM PENH.

10. WHILE SCORECARD SHOWS A FEW STANDOFFS SUCH AS THIS ONE ON PRG AND GRUNK, THE LPF HAS DONE BETTER THAN THE VIENTIANE SIDE IN MOST RESPECTS. IT HAS TAKEN ADVANTAGE OF ITS LAWFUL PRESENCE IN THE TWO CAPITALS (NEUTRALIZED BY THE AGREEMENT) TO CULTIVATE STUDENTS AND LABOR ORGANIZATIONS, CAPITALIZE ON LABOR DISPUTES, AND GENERALLY EXPLOIT DISSATISFACTION. BY LATE DECEMBER, WHEN TROUBLE ERUPTED IN SMALL PROVINCIAL TOWN OF BAN HOUET SAI, IT WAS CLEAR THAT LPF ORGANIZING EFFORTS EXTENDED WELL BEYOND THE CAPITALS. LPF TECHNIQUE IN THIS STATE LEAST OFF SUBSEQUENT INCIDENT (THAKHEK, IN MR-III) IS TO FAN FLAMES COVERTLY, THEN CLAIM RIGHT TO SERVE ON FIRE BRIGADE --AND ALL WITHIN VIENTIANE SIDE'S ZONE.

11. SOUVANNA PHOUMA'S POSTURE DURING THESE MANEUVERINGS --WHEN HE HAS BEEN IN THE COUNTRY AND HEALTHY ENOUGH TO WIELD INFLUENCE--HAS DISAPPOINTED THE VIENTIANE SIDE AND, WE MUST ASSUME, GRATIFIED THE LPF. BEFORE HIS HEART ATTACK IN JULY HE WAS OFTEN PERCEIVED TO BE FAVORING THE LPF, AND AFTER HIS RETURN FROM FRANCE AND REMOVAL TO LUANG PRABANG IN NOVEMBER HE SAW MUCH OF PRINCE SOUPHANOUVONG AND LITTLE OF VIENTIANE SIDE LEADERS (MORE BECAUSE OF THEIR LASSITUDE THAN HIS INACCESSIBILITY). SEVERAL RECENT DECISIONS AND DIRECTIVES, AND HIS OWN IGNORANCE OF SOME UNPLEASANT FACTORS, SUGGEST THE DEGREE TO WHICH PRIME MINISTER HAS BEEN UNDER LPF INFLUENCE.

SOUVANNA HAS JUST RETURNED TO VIENTIANE, WHERE HE SHOULD
CONFIDENTIAL

PAGE 07 STATE 057362

AT LEAST HAVE BETTER PERSPECTIVE ON EVENTS.

12. A MAJOR OUTSTANDING POLITICAL ISSUE BETWEEN THE TWO PARTIES IS THE DISSOLUTION OF THE SEVENTH NATIONAL ASSEMBLY. THE LPF CONSIDERS THE ASSEMBLY A VIENTIANE SIDE INSTITUTION SINCE IT WAS ELECTED BEFORE THE CEASE-FIRE AND IS THEREFORE NOT REPRESENTATIVE. THE VIENTIANE SIDE ARGUES THAT THE ASSEMBLY CAN ONLY BE DISSOLVED IN ACCORDANCE WITH THE CONSTITUTION. COMPLICATING THE PROBLEM IS THE FACT THAT THE VIENTIANE AGREEMENT CALLS FOR NEW ELECTIONS WITHOUT SPECIFYING HOW THEY ARE TO BE CONDUCTED. THERE IS THUS AN APPARENT CLASH BETWEEN THE PROVISIONS OF THE CONSTITUTION AND THE AGREEMENTS ON THIS QUESTION. AT PRESENT THE KING'S COUNCIL IS HOLDING HEARINGS ON THE MATTER. THE IMPORTANCE OF THE ISSUE LIES IN THE ASSUMPTION THAT WERE THE ASSEMBLY DISSOLVED, THE JNPC WOULD BE TRANSFORMED INTO THE DE JURE LEGISLATIVE BODY. IN THIS EVENT SOUPHANOUVONG, AS CHAIRMAN OF THE COUNCIL, WOULD EFFECTIVELY BE ABLE TO DICTATE THE LAWS OF THE LAND. HOW THIS WHOLE ISSUE WILL BE RESOLVED REMAINS UNCERTAIN.

RLG ARMED FORCES IN TIME OF PEACE

13. SENIOR VIENTIANE SIDE MILITARY OFFICERS LEAD THE CHORUS OF COMPLAINT OVER SOUVANNA'S SUSCEPTIBILITY TO LPF INFLUENCE AND OVER OFTEN UNFAVORABLE TREND OF EVENTS. THEY DO NOT APPEAR, HOWEVER, TO HAVE YET TURNED THEIR ENERGIES TO CONSTRUCTIVE CHANNELS.

14. SPECIFICALLY, SENIOR OFFICERS HAVE MOVED ONLY SLOWLY -- AND THEN UNDER HEAVY U.S. PRODDING -- TOWARD REAL INTEGRATION OF FORMER LAO IRREGULAR FORCE TROOPS INTO THE FORCES ARMEES ROYALES (FAR) AND TOWARD REDUCTION OF OVER-ALL RLGAF STRENGTH TO LEVEL WHICH THEIR OWN BUDGET AND U.S. MAP CAN EFFECTIVELY SUPPORT. THERE ARE FREQUENT AND WIDESPREAD COMPLAINTS THAT TROOPS IN FIELD (PARTICULARLY FORMER LIF) DO NOT RECEIVE PAY AND ALLOWANCES ON TIMELY BASIS. GRIEVANCES OF THIS TYPE LED ONE EX-LIF COMPANY TO "MARCH" TWICE ON BAN HOUET SAI, SECOND TIME (DECEMBER 1974) WITH CLEAR PATHET LAO EN-
CONFIDENTIAL

PAGE 08 STATE 057362

COURAGEMENT AND BACKING. PERHAPS WORST OF ALL, FIELD REPORTS FROM USAID AREA COORDINATORS AND OTHER SOURCES REITERATE THAT MORALE AMONG JUNIOR OFFICERS AND NCO'S IS LOW BECAUSE THEIR SENIORS DEVOTE TIME AND OFTEN MILI-

TARY MANPOWER TO PERSONAL BUSINESS PURSUITS. SINCE THE NETWORK OF CORRUPTION BEGINS AT HIGHEST LEVELS AND PERVADES DOWN THROUGH SEVERAL MILITARY REGION AND LOWER COMMANDS, THERE IS LITTLE PROSPECT THAT RLGAFF WILL CLEAN ITS OWN HOUSE. (THE SAME COULD BE SAID OF VIENTIANE SIDE'S CIVIL ADMINISTRATION, WHERE THERE IS NO DISPOSITION TO PURGE CORRUPT OR INCOMPETENT OFFICIALS: FAMILY CONNECTIONS, FINANCIAL ARRANGEMENTS, AND INERTIA ENABLE THEM TO HAND ON.)

15. DESPITE ITS MANIFEST INADEQUACIES, HOWEVER, THE RLGAFF STILL CONSTITUTES SIGNIFICANT PART OF VIENTIANE SIDE'S INSTITUTIONAL BASE, AND WITHOUT U.S. MAP SUPPORT IT COULD NOT FUNCTION. OUR FY 1975 PROGRAM, WITH AUTHORIZATION CEILING OF 30 MILLION DOLLARS, IS INTENDED TO MEET RLGAFF'S MOST BASIC NEEDS (PRINCIPALLY COMMERCIAL CONSUMABLE), PROMOTE MORE RATIONAL LOGISTICS MANAGEMENT, AND GENERALLY ENCOURAGE GREATER PROFESSIONALISM.

16. U.S. IS IN FULL COMPLIANCE WITH VIENTIANE AGREEMENT AND ITS PROTOCOL. HAVING WITHDRAWN ALL MILITARY PERSONNEL OTHER THAN AUTHORIZED DAO COMPLEMENT BY DEADLINE OF JUNE 4, 1974. THIS DOES NOT MEAN, HOWEVER, THAT PATHET LAO ARE SATISFIED. THEIR RADIO CONTINUES TO BROADCAST UNSUPPORTED -- AND UNSUPPORTABLE -- ALLEGATIONS OF CONTINUED U.S. AND THAI TROOP PRESENCE, AND MORE SERIOUSLY, LPF OFFICIALS HAVE LATELY BEGUN TO INQUIRE INTO MAP PROGRAM WITH APPARENT INTEREST IN SHARING THE WEALTH. WE HAVE TAKEN POSITION THAT OUR MILITARY SUPPORT IS FOR RLGAFF ALONG PENDING ACTION BY TWO LAO SIDES TO INTEGRATE THEIR FORCES OR OTHERWISE RESOLVE DIFFERENCES, AT WHICH TIME WE WOULD NEED TO CONSULT WASHINGTON.

17. THE TWO SIDES IN FEBRUARY SIGNED AN AGREEMENT IN THE JOICIA ON "WITHDRAWAL OF FOREIGN TROOPS." THE HISTROY OF THIS AGREEMENT IS SIMILAR TO THAT OF THE EARLIER ONE ON REFUGEES (PARA 7 AND 8, ABOVE). LPF SIMPLY REFUSED TO BUDGE FROM CONFIDENTIAL

PAGE 09 STATE 057362

ORIGINAL POSITIONS AND VIENTIANE SIDE FINALLY ACCEDED. VIENTIANE SIDE BELIEVES (WE THINK NAIVELY) THAT IT CAN USE THIS JCCIA AGREEMENT TO ATTACK LPF ON ISSUE OF CONTINUED NVA PRESENCE IN LAOS IN VIOLATION OF VIENTIANE AGREEMENTS.

ECONOMY WEAKENS

18. IN SECOND YEAR OF CEASEFIRE LAO ECONOMY HAS ENCOUNTERED SERIOUS PROBLEMS. MOST SERIOUS HAS BEEN DOMESTIC AND WORLDWIDE INFLATION, PARTICULARLY INCREASES IN RICE AND POL PRICES. USAID GENERAL COST-OF-LIVING INDEX FOR VIENTIANE SHOWED INCREASE OF 84 PERCENT IN CY 1974. GOVERNMENT EXPEDITURES AND BORROWING ROSE, WHILE GOVERNMENT REVENUES DECLINED. FACED WITH A SERIOUS FINANCIAL CRISIS IN

MID-JULY, PGNU DECIDED AGAINST THE DEVALUATION RECOMMENDED BY THE IMF AND INSTEAD INSTITUTED A SYSTEM OF EXCHANGE CONTROLS; BOTH PARTIES TO COALITION WANTED TO AVOID STIGMA OF ORDERING A DEVALUATION. VALUE OF KIP IN RELATION TO DOLLAR ON VIENTIANE PARALLEL MARKET DECLINED FROM 840:1 AT END OF JUNE 74 TO 1260:1 AT END OF DECEMBER AND HAS SINCE CONTINUED TO DROP (1380:1 AS OF JANUARY 31).

19. FACED WITH THESE PROBLEMS, PGNU DECIDED TO DISPATCH AID-SEEKING MISSIONS TO NUMEROUS COUNTRIES OF ALL IDEOLOGICAL CAMPS. MISSIONS HAVE NOW VISITED MORE THAN 20 COUNTRIES WITH MIXED RESULTS; EXTENSIVE COMMODITY AID PROMISED BY SOME COMMUNIST STATES SHOULD EVENTUALLY HELP MEET LAO IMPORT NEEDS, BUT PGNU HASNOT YET DECIDED HOW IT WILL HANDLE THIS LARGESSE. SENIOR OFFICIALS OF BOTH SIDES APPEAR TO THINK THAT PGNU CAN REPEAT THIS AID-SEEKING EFFORT ANNUALLY, BUT WE DOUBT THAT MOST DONORS WILL BE SO FORTHCOMING THE SECOND TIME AROUND.

CONCLUSION

20. THE STABILITY OF THE CEASEFIRE OVER THE PAST TWO YEARS IS ENCOURAGING. WE SENSE NO DISPOSITION ON THE PART OF EITHER SIDE TO RESUME HOSTILITIES, AND OUTSIDE POWERS -- MOST IMPORTANTLY NORTH VIET-NAM -- APPEAR TO FIND THEIR INTERESTS SATISFIED BY THE PRESENT SITUATION.

21. THE MOST NOTABLE DEVELOPMENT OF THE PAST YEAR WAS THE ESTABLISHMENT OF THE BODIES PROVIDED FOR IN THE CONFIDENTIAL

PAGE 10 STATE 057362

VIENTIANE AGREEMENT -- THE PGNU, UNPC AND JCCIA. FACT THAT PGNU CONTINUED TO EXIST AND OPERATE THROUGH THE SHOCK OF SOUVANNA'S HEART ATTACK AND HIS LONG PERIOD OF CONVALESCENCE IS IN ITSELF EVIDENCE OF THE STABILITY OF THESE ARRANGEMENTS. THERE HAS BEEN TANGIBLE PROGRESS -- THOUGH OFTEN ONLY AFTER MUCH CONTROVERSY -- TOWARD IMPLEMENTATION OF SUCH OTHER ASPECTS OF AGREEMENT AND PROTOCOL AS PROVISIONAL DEMARCATION OF THE COUNTRY, PRISONER EXCHANGE, AND NOW REFUGEE RESETTLEMENT. CLEARLY NEITHER SIDE WANTS TO SEE THE VIENTIANE AGREEMENT COME APART.

22. WHAT IS LACKING, HOWEVER, IS ANY APPARENT WILLINGNESS ON EITHER SIDE TO MOVE TOWARD GENUINE NATIONAL RECONCILIATION. THE LPF HAS SHOWN LITTLE WILLINGNESS TO COMPROMISE AND BY STONEWALLING ON ISSUES HAS GENERALLY MANAGED TO HAVE THINGS ITS WAY. FOR THE LAST SEVERAL MONTHS IT HAS SOUGHT TO EXPLOIT THE VIENTIANE SIDE'S SOFT SPOTS, AND WITH SOME SUCCESS. PARTLY BECAUSE OF THE DIFFICULTIES OF WORKING WITH THE LPF, PARTLY BECAUSE OF ITS OWN DISORGANIZATION AND DISUNITY, THE VIENTIANE SIDE HAS FOUND ITSELF ON THE DEFENSIVE AND IS NOW BEGINNING TO FEEL A GENUINE CONCERN AT THE EROSION OF ITS POLITICAL POSITION.

23. NEITHER SIDE IS ANXIOUS TO MOVE QUICKLY TO THE ELECTIONS, PROVIDED FOR IN THE AGREEMENT, THAT WOULD CREATE A NEW NATIONAL ASSEMBLY AND GOVERNMENT AND BRING THE CURRENT "PROVISIONAL" PHASE TO AN END. ACCESS TO THE SO-CALLED LIBERATED ZONE WILL COME ONLY SLOWLY, IF AT ALL. INTEGRATION OF THE TWO SIDES' ARMED FORCES IS NOWHERE IN SIGHT.

24. THE OUTLOOK THEN IS FOR A FURTHER PERIOD OF POLITICAL MANEUVERING, VERY POSSIBLY COMPLICATED BY GROWING ECONOMIC PROBLEMS WITHOUT CONCLUSIVE SHORT-TERM RESULTS. IT IS IMPOSSIBLE TO PREDICT RIGHT NOW WHAT KIND OF REGIM WILL GOVERN LAOS FIVE YEARS OR EVEN ONE YEAR HENCE. THE RECORD OF THE PAST YEAR SUGGESTS, HOWEVER, THAT THE PATHET LAO WILL PURSUE THEIR GOALS PERSISTENTLY AND INFLEXIBLY, A PROSPECT THAT DOES NOT AUGUR WELL FOR THE VIENTIANE SIDE.

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PAGE 11 STATE 057362

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